

Executive Summary June 12, 2013

In response to concerns raised by Senator Thomas Bakk, DFL Majority Leader, and Senator Terri Bonoff, Chair, Senate Higher Education and Workforce Development Committee, regarding administrative costs at the University of Minnesota, the University contracted Huron Consulting Group (Huron) to perform an Administrative Services Benchmarking and Diagnostic Study. The study was conducted over a 12-week period and focused on four functional areas: finance, procurement, human resources (HR), and information technology (IT). The study had three primary objectives:

1. Identify, determine the scale of, and prioritize opportunities for improvement
2. Describe primary factors such as technology, organizational structure, and service delivery approach which may currently impact performance in each area
3. Highlight peer and leading practices which may have applicability to the University of Minnesota

To accomplish these objectives, Huron analyzed internal data supplied by the University, conducted interviews and focus groups with leaders and staff in these functional areas; designed, distributed, and analyzed custom surveys of peer institutions; reviewed secondary external research; and drew on the firm's extensive experience working with other major research universities in these functional areas. Given the project's short timeframe, the focus was the Twin Cities campus, though interviews and focus groups did include representatives from the system campuses.

Overview

In each of the four areas reviewed, the University is already undertaking major initiatives to promote efficiency and effectiveness and to reduce administrative costs. These initiatives, which involve changes to technology, organizational structure and design, and process and workflow design, reflect peer and private sector leading practices. These initiatives all have University-wide impact and require leadership and staff time and effort to plan, design, and implement.

Representative examples include:

- **Finance:** upgrade of financial systems, implementation of UM Analytics (business intelligence system), centralization of accounts receivable for non-sponsored funds, closure of Bursar's office and restructuring of those activities
- **Procurement:** implementation of an eProcurement platform and contract management system, ongoing strategic sourcing initiatives
- **HR:** upgrade of human resources systems, including implementation of electronic time and labor tracking, conducting a job classification study, creation of leadership development and employee engagement programs, reorganizing the Office of Human Resources
- **IT:** consolidation and virtualization of servers, consolidation of desktop support, creation and implementation of a new "best practice" IT governance model, development of institution-wide technology standards, implementation of IT service management, transition to Google applications

At the same time, the University faces many of the same general administrative challenges as its peers. Public research universities are complex organizations which have historically operated as coordinated collections of collegiate and non-collegiate units as opposed to unified enterprises. In many cases, individual units have independently developed their own administrative structures which are tailored to their local needs, priorities, and cultures. While this model promotes flexibility and responsiveness, it also has the potential to duplicate resources and does not take advantage of economies of scale, in particular for transactional and operational tasks. Public research universities have flourished with distributed administrative models. This established approach, however, is under considerable financial stress at institutions across the nation, and many are being called upon to reexamine the administrative efficiency of this operating model.

As with its peer institutions, the University of Minnesota staff members that deliver finance, procurement, human resources, and information technology services are widely distributed across the collegiate and non-collegiate units and system campuses and primarily report to the leadership of their units (as opposed to a central administrative unit). While the University has recently implemented a dotted-line reporting structure between the distributed leadership of these functions and their respective central University officers, the full benefits of improving alignment and reducing duplication have not yet been achieved. Also, like many of its peers, the University lacks complete, reliable data on the distributed activities and effort supporting these functions. This information gap is caused by two primary factors:

1. Responsibilities related to these functions are often fragmented. Individuals may support more than one administrative function or they may support a particular function only a portion of their time. Their effort related to these functions may also vary with the shifting needs of their unit.
2. The University's job classification system is not current. Job titles do not consistently capture the types of work supported by staff. The University is in the process of conducting a job family and job classification study which will directly address these issues. This is a long-term project that will be completed over the next two years.

The University's high level of decentralization and limited data make estimating the University's total investment in the in-scope functions very difficult. The University has invested time to analyze its workforce, but this work has been fundamentally limited because it relies on the outdated job title structure. As part of this engagement, Huron conducted an administrative activity survey of the University's non-collegiate units to develop more complete data on administrative effort. The results of that survey confirm the high level of job fragmentation in those units and suggest that analysis by job title alone underestimates the resources dedicated to the in-scope functions.

Benchmarking

Given the number of factors which drive efficiency and effectiveness, such as technology, organizational structure, and strategic priorities, benchmarking should be taken only as a directional indicator. Benchmarking staffing levels on its own often has limited value in determining the optimal size of a function. Instead, strategic and operational goals should be the primary drivers of resource decisions. Benchmarking can, however, be useful to highlight opportunities for further analysis and identify alternative models and approaches for providing services.

In this study, Huron compared each of the four in-scope functional areas to peer and leading practices. Peer resource data for finance, HR, and procurement were collected through a custom survey sent to the University's established peer list. Not all institutions responded, and not all responses were complete. Individual institutions were

assured that their responses would be de-identified in the report, and Huron did not provide University officials with identified data. Peer data for IT was taken from the EDUCAUSE Core Data Survey¹, a higher education IT benchmarking resource, as well as from interviews with peer Chief Information Officers.

These benchmarking efforts generally revealed that staffing of central functions in these four areas is within the broad range of responding peers and that the University is pursuing many of the same types of improvement efforts as other institutions.

Finance. Peer institutions varied with regard to the organizational structure of finance functions and the type of support they provide. The University's staffing of central financial administration (budget, accounting, and sponsored financial reporting) relative to expenditures appears to be within the broad range of responding peers. Peer institutions all indicated highly distributed resources supporting financial administration, but most were uncertain as to the total staff or effort devoted to these activities. Notably, the University has a lower number of staff with financial system access, which likely reflects the creation of financial "clusters," or defined administrative groups, when the University's financial system was upgraded in 2008. The clusters consolidated transactional activity and shifted much of it out of departments to a higher level in the organization.

Procurement. Huron received only three responses to the custom procurement survey, but they highlight some characteristics of the University's approach to procurement. The University's central procurement function appears smaller than those of responding institutions. This likely reflects central Purchasing Services' emphasis on providing contracts, tools, and data as opposed to processing transactions. Huron also compared the University's procurement and payables activities to established leading practices. In general, the procurement function makes extensive use of technology and plans to expand its use to further reduce costs. Since 2009, the University has employed a strategic sourcing approach, that is, a set of methods to improve pricing and reduce costs, which has been a source of savings for many other institutions. Huron did note the University's lower utilization of electronic payments and lower adoption of travel and expense reimbursement tools than some peers and industry benchmarks.

Human Resources. Peer institutions have a range of complex operating models for human resources. In some cases, this includes support from a separate university system or state office. This variability must be acknowledged when interpreting the results of benchmarking. The staffing of the University's central HR function, relative to the size of the overall employee population, does not appear significantly out of line with five of its peers, but is larger than two others. The University's budget for central HR relative to the employee population was second highest in the peer range. Peer estimates of distributed HR staffing, however, varied extensively, and institutions that did report it indicated significant uncertainty in their numbers. Given this uncertainty, the University's higher central HR resource allocation could reflect a greater degree of centralization, higher levels of centrally-provided services, and/or its lack of external support from a separate university system or state HR function.

Information Technology. The University's overall use of IT resources appears to be in line with peers, though data suggest that its IT resources may be more decentralized. The University's central IT organization is somewhat smaller than the peer group average. The University's central IT budget is also slightly below the peer group, though some of this difference could come from variation in what is included in the central IT budgets across the peer campuses. The size of the University's reported distributed IT staff ranks near the center of the peer group. However, when overall IT staffing ratios are examined, the University appears somewhat more decentralized than its peers.

¹ As per the EDUCAUSE Core Data terms of use, Huron did not have direct access to the survey database (select data was extracted by an authorized University employee).

The University's total IT staffing, including both central and distributed IT staff, ranks in the center of the group, and is nearly identical to the group average. On a per-user basis, though, the University appears to spend significantly less on both central IT and total IT than its peers.

Diagnostic Study

While conducting the benchmarking, Huron also reviewed the four functions to identify and prioritize potential opportunities for improvement.

Finance. The concept of clustering financial functions is an established practice in some areas of the University. The clustering of financial functions at the college/unit level consolidated some financial administration activities and potentially improved efficiency. However, not all financial administration activity occurs within clusters, and in some cases the clusters operate independently of one another. Huron recommends that the University undertake additional efforts to consolidate and standardize financial functions both within and across college/unit boundaries and to develop a more coordinated, metric-driven approach to financial administration. Huron also recommends that the University specifically evaluate the resources and services devoted to financial reporting.

In summary:

- Evaluate service delivery model for financial reporting
- Enhance governance of distributed finance
- Manage financial administration by metrics

Procurement. While the University currently employs many leading procurement practices, two process areas remain distributed and paper-based: invoice processing and travel/expense reimbursement processing. Huron recommends that these high-volume processes be redesigned to take better advantage of electronic tools as well as discounts/rebates. As with finance, Huron also identified the opportunity to use metrics more extensively to manage procurement and payables functions.

In summary:

- Increase traveler adoption of travel and expense tools
- Fully automate travel and expense process
- Consolidate travel management authority
- Consolidate invoicing
- Expand use of ACH and ePayables (electronic settlement tools) – in progress
- Implement a contract management solution – in progress
- Enhance procure-to-pay performance metrics

Human Resources. The Office of Human Resources is currently undergoing significant organizational and cultural change while undertaking major projects. This level of change requires resources which may be able to be refocused once projects are completed and stabilized. In order to determine the optimal staffing, service, and financial resource levels, HR programs and services must be comprehensively evaluated. Huron recommends that the University develop a framework and formal process for evaluating human resources policies, programs, and services to determine the value they provide and ensure they are aligned with current priorities. Huron also recommends that the University move towards a leading-practice service delivery model. Finally, Huron noted the opportunity to enhance ongoing efforts to develop an HR metrics program and a data integrity program.

In summary:

- Align HR programs and services with HR strategy
- Refine HR operating model to reflect leading practice
 - Continue to develop centers of expertise
 - Define HR generalist roles and accountability
 - Consolidate delivery of transactional activities
- Define and implement HR performance metrics
- Formalize data integrity program

Information Technology. Information technology is also undergoing a significant amount of organizational and cultural change. The concept of “We of IT,” which emphasizes the integration of IT across organizational lines appears to be gaining strength. The University has already begun or is in the process of implementing many technical solutions that promote efficiency (consolidating data centers, migrating to a single e-mail platform). The University should develop a systematic approach to evaluating current and future investments in technology and for ending programs and services that do not provide value relative to their costs. Additional opportunities in IT involve continuing to build organizational and cultural effectiveness, promoting collaboration, and accelerating current initiatives to consolidate desktop support and other broadly-used services.

- Create mechanism to evaluate IT investments (current and future)
- Define IT roles and responsibilities at all levels of the organization
- Determine University-wide service level expectations
- Accelerate usage of common good services
- Refine the IT governance process

Enterprise-wide Opportunities

The University already has many of the basic foundations to drive greater efficiency and effectiveness. It has enterprise-level systems for managing finance, procurement, and HR that are used across the entire system of campuses. Institutional policies and processes are generally well defined and documented in a central repository for use across the entire system. The University’s Responsibility Center Management (RCM) budget model promotes financial accountability for each unit and campus. Some administrative activities have been centralized or consolidated to achieve greater consistency and economies of scale.

Looking beyond incremental improvements to individual functional areas, Huron identified a broader opportunity to rethink how administrative services are delivered. Developing new administrative service delivery models requires:

1. Using systematic methods of evaluating programs and services, both central and distributed
2. Defining service expectations and levels of service with stakeholders
3. Clarifying accountability for delivering services at all levels
4. Using metrics and reporting to determine resource requirements and monitor performance

Service delivery can take multiple forms, from localized to centralized. Activities that are high-volume and transactional in nature can be consolidated or grouped to achieve greater efficiency. Many public and private institutions, including some of the University’s peers, have undertaken projects to transform administration within their collegiate and non-collegiate/support units through the consolidation of administrative activities into shared service centers. These centers are charged with working with faculty and staff to define a set of services and then delivering

those services through managed, service-focused processes. A new service delivery model can take a number of different forms and can include a broad range of administrative activities within its scope. Redesigning and implementing a new service delivery model in any functional area is a multi-year effort that would require dedicated resources to plan, manage, and implement. Before beginning this type of initiative, the University would need to undertake a more comprehensive evaluation to determine its feasibility and potential return on investment.

Moving Forward

Given its current portfolio of projects, the University will need to evaluate its capacity and prioritize additional improvement opportunities. Establishing a clearer, shared vision of administrative services would help ensure that investments related to ongoing projects, changes within individual functions, and broader changes to service delivery models align with one another.

As the University moves forward, it should consider the following near-term steps:

1. Review shorter and longer-term opportunities with internal stakeholders
2. Develop a broader vision for University-wide administrative services through expanded engagement of academic and administrative stakeholders across all of the campuses
3. Continue to gather internal data and analyze administrative activities, prioritizing the non-collegiate units, and develop alternative options for improved service delivery
4. Evaluate, select, and prioritize opportunities and assess their connections to other initiatives already underway, in particular the Enterprise Systems Upgrade Program
5. Develop a plan that identifies leadership/governance, goals, measures of success, supporting resources, and timing

A disciplined evaluation and planning process that engages stakeholders will be critical to determining the approach that best meets the University's needs. Moreover, it will be an important step in shifting the community's measure of efficiency and effectiveness to a more University-wide view.